

INTERNAL CONTROLS & RISK ASSESSMENT



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Management Responsibilities

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Definition of Internal Controls

- Internal control is the process by which management structures an organization to provide assurance that an entity operates effectively and efficiently, has reliable financial reporting system and complies with applicable laws and regulations.

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Purpose of Internal Controls



- To combat fraud and mistakes by:
- Preventing Opportunity
 - Detecting Fraud, Errors, and Omissions



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Objectives:



1. Operations

Working effectively & efficiently

2. Reporting

Reliable, Timely, & Transparent

3. Compliance

Adhere with laws and regulations

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Components:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities



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Control Environment *"Tone at the Top"*



- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority, and responsibility
- Demonstrates commitment to competence
- Enforces accountability



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Risk Assessment *"Where is the Risk"*



- Specifies relevant objectives with sufficient clarity
- Identifies achievement of objective risks and analyzes risks to determine manageability
- Assesses the potential for fraud within risks
- Identifies and analyzes significant change that could impact



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Control Activities *"Policies & Procedures"*



- Selected and Developed to mitigate risks to the objectives to acceptable levels
- Develop IT Controls to support the objectives
- Deploy policies that establish what is expected and procedures that put policies into place.



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Information and Communication



- Obtains or generates and uses relevant, quality information to support the internal control function
- Internally communicates information
- Communicates with external parties



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Monitoring Activities



- Develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including management and the governing boards, as appropriate.



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Additional Guidance



- Uniform Internal Control Standards for Indiana Political Subdivisions – Internal Control Manual

Uniform Compliance Guidelines (Manuals) ▼

Manuals

Internal Control Manual

[Uniform Internal Control Standards for Indiana Political Subdivisions](#)

Information Technology Manual

[Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions – Information Technology](#)

County Treasurers Manual

You can view the manual online by clicking on one of the Chapters below:


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Best Practices “How to get Started”




- Available on the SBOA website (Counties page):
<https://www.in.gov/sboa/political-subdivisions/counties/>
- Questionnaires designed to help develop policies and procedures
- Two versions:
 - Long version
 - Snapshot version

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<p>Understanding Internal Controls and Risk Assessment</p>	 <ul style="list-style-type: none"> ➤ Required to understand internal controls in place ➤ Prepare a risk assessment of each audit area ➤ Create the audit plan
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<p>Understanding Internal Controls</p>  <p><i>**As Fiscal Officer, the Auditor completes these forms – Treasurer may never see</i></p> <ul style="list-style-type: none"> ➤ Form 7 – Questionnaire at the Entity Level about Control Environment, Risk Assessment, Information & Communication, and Monitoring (Along with IT controls) ➤ Form 9 – Questionnaire to understand the County structure and form ➤ Form 13 – Fiscal Officer Certification of Financial Statements, Schedules, and Notes
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Understanding Internal Controls



➤ Form 45 – This form relates to the Form 7 but reviews the Control Activities. It is used to get a detailed account of policies and procedures for:

1. **Cash and Investments**
2. **Receipts**
3. Disbursements
4. Financial Close and Reporting
5. Notes to the Financial Statements

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Form 45 Cash & Investments



Account Balance(s): <u>Cash and Investments</u>	Audit Area: <u>Cash and Investments</u>
Document the reconciliation routine for material account balances.	
Reconciliation Routine	
Reconciling and Reporting:	

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Form 45 Receipts



Transaction Class:	General Receipts	Audit Area:	Receipts
Document the flow of information for significant transaction classes.			
Flow of Information			
Initiating Authorizing:			
Notes to FE: Consider the following: How and by whom are transactions initiated and authorized? What source documents (or electronic means) are used to capture information for entry in the accounting system? How and by whom are transactions originally entered in the accounting system for processing?			
Recording and Processing:			
Notes to FE: Consider the following: What are the accounting processing steps, both automated and manual, from original entry to inclusion in the general ledger? (Processing includes functions such as edit and validation, calculation, measurement, valuation, summarization, and reconciliation.) Indicate how and by whom transactions are processed. What accounting records and supporting documents are used or created when processing transactions? What subsidiary journals or ledgers are involved? How is the incorrect processing of transactions resolved?			
Reconciling and Reporting:			
Notes to FE: Consider the following: What procedures are used to enter transaction totals into the general ledger? What is the entity's process for reconciling account detail to the general ledger for material accounts? Describe any management reports or other information that is generated from this system and its use by management or the owner/manager in managing and controlling the			

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Takeaways

- Internal Controls are designed and implemented by management
- Internal Controls should always be evolving and never stagnant
- Segregation of Duties
- Document, Document, Document



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